

CITY OF PELLA, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

CITY OF PELLA, IOWA
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CITY OF PELLA, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2005)		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2006
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2006
Howard Vroom	Council Member	January, 2006
James Twombly	Administrator	July 5, 2004
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2007
(After January, 2005)		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2006
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2006
Howard Vroom	Council Member	January, 2006
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2007



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated October 12, 2005 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 50 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 12, 2005

CITY OF PELLA, IOWA

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

This section of the annual financial report presents discussion and analysis of the City's financial performance during the fiscal year that ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$65,278,274 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$15,997,769.
- Assets of business type activities exceeded liabilities by \$49,280,505.
- The revenues of the governmental activities exceeded expenses by \$1,517,361.
- Within the City's business-type activities, revenues exceeded expenses by 2,702,396. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2005 the general fund had an unrestricted fund balance of \$1,643,728 or working capital of nearly 47% of annual expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decision. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue-road use tax fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Data from these funds are combined into a single, aggregated presentation. Individual fund data for each of these funds is provided in the form of combining statements elsewhere in the report. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$65,278,274 at the close of the most recent fiscal year. However as noted in footnote #1, a good portion of the city's infrastructure is not included in the above net asset numbers. The reason for this is under GASB 34 cities have four years to recognize past acquisitions of infrastructure. In our case it is beneficial for staff to determine the cost of our infrastructure rather than hiring an outside consultant. Furthermore we anticipate the past assets will be added within the next two years.

The most significant portion of the city's net assets (59.69%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

City of Pella's Net Assets

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 7,726,723	6,849,566	24,980,753	20,391,347	32,707,476	27,240,913
Capital assets	23,851,551	24,284,761	56,200,603	53,941,298	80,052,154	78,226,059
Total assets	31,578,274	31,134,327	81,181,356	74,332,645	112,759,630	105,466,972
Current Liabilities	4,575,035	4,904,510	3,644,102	3,465,367	8,219,137	8,369,877
Long-term liabilities	11,005,470	12,164,942	28,256,749	23,065,121	39,262,219	35,230,063
Total Liabilities	15,580,505	17,069,452	31,900,851	26,530,488	47,481,356	43,599,940
Net assets:						
Invested in capital assets, net of related debt	12,966,283	11,693,035	26,000,612	28,972,617	38,966,895	40,665,652
Restricted assets	1,571,805	1,533,616	11,984,970	7,867,572	13,556,775	9,401,188
Unrestricted assets	1,459,681	838,224	11,294,923	10,961,968	12,754,604	11,800,192
Total net assets	\$ 15,997,769	14,064,875	49,280,505	47,802,157	65,278,274	61,867,032

A portion of the City's net assets (20.77%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$12,754,604 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004
Revenues						
Charges for service	\$ 542,086	412,768	17,216,552	17,838,098	17,758,638	18,250,866
Operating grants, contributions	975,697	989,851	-	-	975,697	989,851
Capital grants, contributions	255,948	246,818	-	-	255,948	246,818
Property taxes	2,722,753	2,837,958	-	-	2,722,753	2,837,958
Local option taxes	813,900	851,409	-	-	813,900	851,409
TIF	1,672,240	1,444,657	-	-	1,672,240	1,444,657
Other Taxes	366,366	367,213	(147,618)	(118,088)	218,748	249,125
Grants & contributions	32,022	76,318	-	-	32,022	76,318
Payment in lieu of taxes	497,101	489,212	-	-	497,101	489,212
Investment earnings	92,984	61,733	358,459	238,863	451,443	300,596
Miscellaneous	8,930	164,758	88,749	303,312	97,679	468,070
Gain on sale of assets	(257,641)	-	1,281,616	18,712	1,023,975	18,712
Contributions to permanent fund	-	150,000	-	-	-	150,000
Transfers	(74,595)	21,047	74,595	(21,047)	-	-
Total revenues	7,647,791	8,113,742	18,872,353	18,259,850	26,520,144	26,373,592
Expenses						
General government	474,326	832,890	-	-	474,326	832,890
Public Safety	1,437,417	1,278,568	-	-	1,437,417	1,278,568
Public Works	1,144,024	1,136,810	-	-	1,144,024	1,136,810
Culture & Recreation	1,936,340	1,944,406	-	-	1,936,340	1,944,406
Community & Economic Development	514,593	262,752	-	-	514,593	262,752
Facilities & Acquisition	71,612	343,651	-	-	71,612	343,651
Long-term debt and interest cost	552,118	594,067	-	-	552,118	594,067
Water	-	-	1,700,028	1,679,917	1,700,028	1,679,917
Sewer	-	-	1,972,298	1,885,984	1,972,298	1,885,984
Sanitation	-	-	398,024	376,018	398,024	376,018
Electric	-	-	12,099,607	10,983,941	12,099,607	10,983,941
Internal Service	-	-	-	575,010	-	575,010
Total expenses	6,130,430	6,393,144	16,169,957	15,500,870	22,300,387	21,894,014
Change in net assets	\$ 1,517,361	1,720,598	2,702,396	2,758,980	4,219,757	4,479,578

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$3,926,224 at June 30, 2005. This was an increase of \$695,144 from the prior year. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance increased by \$302,811 or 22.58% in Fiscal Year 2005. The surplus can be attributed to operational savings made throughout the year. In addition we budgeted for state cutbacks that never occurred. As a result, our fund balance increased to \$1,643,728 which represents approximately 47% of annual expenditures, and exceeds the City's target range of 25% to 40%.

Debt Service Fund

The debt service fund's balance of \$79,097 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$61,294, which was a planned drawdown of the fund balance. The decrease was offset by a strong performance of the City's general fund. In addition, the 2006 budget contains a balanced budget for the debt service fund.

Road Use Tax Fund

The Road Use Tax Fund had a balance of \$1,056,621 at June 30, 2005. However, \$469,481 of this balance is a receivable due from the Pella Business Corridor TIF Fund, and will be repaid as development occurs in the TIF district. During the year the fund balance increased by \$107,585, which is a result of operating savings made during the year.

Capital Projects Funds

The capital project funds are comprised of two main funds which are as follows:

Capital Facilities Fund had a fund balance of \$354,751 at June 30, 2005. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

Library Building Fund had a fund balance of \$818,823 at June 30, 2005. This balance will be used for the renovation of the Old Carnegie Viersen Library into a new City Hall.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The combined net assets of the enterprise funds at June 30, 2005 totaled \$49,280,505 of which \$11,294,923 is unrestricted. Overall, net assets for enterprise funds increased by \$2,702,396, which is an increase of 5.80% over the 2004 net assets of \$46,578,109.

The net assets of internal service funds, which is comprised mainly of the City's health insurance trust fund increased from \$415,533 to \$443,204. The reason for a majority of the increase was due to lower than expected claims for the year.

BUDGETARY HIGHLIGHTS

The FY 05 budget was amended on January 4, 2005 for the following reasons:

- The 2004 Electric Budget was converted to the FY 04-05 City budget.
- Property tax credits were increased \$48,634 due to the projected cut that never occurred.
- Local Option Tax was increased \$105,100.
- Bank Franchise Taxes were increased \$12,134 due to the projected cut that never occurred.
- Expenditures were increased \$14,000 to purchase a patrol car.
- Expenditures were increased \$39,682 for an additional Library Assistant, replacement of the Library's front doors, and replacement of the Library server and public service computers.
- Expenditures were increased \$25,000 for the Outdoor Pool demolition.
- Expenditures were increased \$10,350 to repair the Information Windmill in Central Park.
- Expenditures were increased \$27,000 to purchase Turbidity Monitoring Equipment.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and associated expenses for the year included the following:

Governmental Activities

Construction of Outdoor Aquatic Center \$172,989

Purchase of 609 Liberty for construction of new parking lot \$133,734

Electric Fund

Completion of the New Diesel Generating Plant \$456,909

Construction cost for ownership share of Council Bluffs 4 (CB 4) \$3,449,121

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2005, the City had bonds outstanding of \$42,170,000. This included new issues of \$7,000,000 which were issued for the following purposes:

2005 Electric Revenue Bonds for \$7,000,000 - The purpose of this issue was to finance our remaining share in CB-4.

The City maintains an A2 rating from Moody's Investor Services on all its general obligation debt and electric revenue debt. The latest water revenue bond obtained an initial rating of A3.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2003. The current general obligation debt limitation for the City is \$26,056,600 and at June 30, 2005 there was \$13,135,000 of outstanding general obligation debt. Therefore the city's debt margin is \$12,921,600 or 49.59%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The rebound of the national economy has had a positive impact on the City of Pella. The rebound has been most beneficial in utility revenues, sales tax, and hotel/motel tax. However, we will continue to struggle with stagnant taxable property valuations in FY 06. This is due in large part to the state 'rollback' valuation system in which the taxable valuation of residential property is linked to agriculture property. As a result, allowable growth for residential property cannot exceed agriculture property. The problem lies in the fact that 64% of our property valuations are residential. Furthermore agricultural property has been in a slump over the last decade. As a result, general fund taxable property valuations have been relatively stagnant over the last four years, which has resulted in a leveling off of property tax revenue.

At the state level, where revenues are more closely tied to the national economy, annual collections have meet growth projections. As a result, the State of Iowa did not cut funding to local governments in fiscal year 2005. We also do not expect any funding cuts in the present fiscal year.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2006 budget:

Property Taxes

The City was able to maintain its property tax rate in Fiscal Year 2005 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2006.

Electric Rates

There has not been an electrical rate increase since 1996. In addition it appears the City will be able to finance our share of the new 790 Megawatt power plant in Council Bluffs without

increasing rates. The total cost of the project is estimated at \$16.1 million dollars and we will utilize both cash on hand and revenue debt to pay for the construction costs.

The dilemma the City faces in future years is costs to meet the new clean air requirements by the Environmental Protection Agency. Therefore it is very likely that the City will need to increase rates to meet compliance standards by 2009.

Water Rates

For Fiscal Year 2005 there was no increase in water rates. However in FY 06 we may need to increase rates depending on the outcome of our source water evaluation. If it is determined that the City needs to acquire an additional source of water, then rates could increase by 10% to 15%.

Waste Water Rates

For Fiscal Year 2005 there was no increase in waste water rates. In addition there will be no increases in Fiscal Year 2006 as well.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 717 Main Street, Pella, Iowa 50219.

Financial Statements

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash and pooled investments	\$ 3,242,201	10,334,511	13,576,712
Receivables:			
Property tax:			
Delinquent	19,392	-	19,392
Succeeding year	2,791,420	-	2,791,420
Other tax:			
Local option	137,931	-	137,931
TIF delinquent	5,723	-	5,723
Accounts (net of allowance for uncollectibles)	4,951	1,669,886	1,674,837
Accrued interest	11,526	54,012	65,538
Due from other governments	28,828	-	28,828
Internal balances	(87,054)	87,054	-
Inventories	-	850,320	850,320
Restricted assets (cash and pooled investments)	1,571,805	11,984,970	13,556,775
Total current assets	7,726,723	24,980,753	32,707,476
Non-current assets:			
Deferred charge (issuance costs)	-	266,433	266,433
Capital assets:			
Land, wastewater rights, and infrastructure	5,777,652	7,155,281	12,932,933
Depreciable buildings, property, equipment and infrastructure, net	18,073,899	48,778,889	66,852,788
Total non-current assets	23,851,551	56,200,603	80,052,154
Total assets	31,578,274	81,181,356	112,759,630
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	312,594	1,431,443	1,744,037
Salaries and benefits payable	135,169	94,400	229,569
Deposits	-	54,355	54,355
Accrued interest payable	42,740	103,994	146,734
Deferred revenue - succeeding year property tax	2,791,420	-	2,791,420
Compensated absences - due within one year	118,112	135,910	254,022
Long-term debt - due within one year	1,175,000	1,824,000	2,999,000
Total current liabilities	4,575,035	3,644,102	8,219,137
Non-current liabilities:			
Long-term debt - due in more than one year:			
Compensated absences	120,470	147,191	267,661
Capital loan notes	150,000	-	150,000
General obligation bonds (net of unamortized discounts)	10,735,000	1,184,327	11,919,327
Revenue bonds payable (net of unamortized discounts)	-	26,925,231	26,925,231
Total non-current liabilities	11,005,470	28,256,749	39,262,219
Total liabilities	15,580,505	31,900,851	47,481,356

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2005

Continued from previous page.

Net Assets

	Governmental Activities	Business Type Activities	Total
Invested in capital assets, net of related debt	12,966,283	26,000,612	38,966,895
Restricted for:			
Debt service and improvements	36,357	11,930,615	11,966,972
Special Purposes	1,395,448	-	1,395,448
Permanent Trust	140,000	-	140,000
Other	-	54,355	54,355
Unrestricted	1,459,681	11,294,923	12,754,604
Total net assets	\$ 15,997,769	49,280,505	65,278,274

See notes to financial statements.

Exhibit B

CITY OF PELLA, IOWA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
<u>Functions/Programs</u>				
Governmental activities:				
Public safety	\$ 1,437,417	92,045	99,836	1,000
Public works	1,144,024	3,118	831,307	-
Culture and recreation	1,936,340	359,420	44,554	-
Community and economic development	514,593	-	-	-
General government	474,326	87,503	-	-
Long-term debt costs and interest	552,118	-	-	-
Facilities and acquisition	71,612	-	-	254,948
Total governmental activities	6,130,430	542,086	975,697	255,948
Business type activities:				
Water	1,700,028	1,966,225	-	-
Sewer	1,972,298	1,570,917	-	-
Sanitation	398,024	419,221	-	-
Electric	12,099,607	13,260,189	-	-
Total business type activities	16,169,957	17,216,552	-	-
Total primary government	\$ 22,300,387	17,758,638	975,697	255,948
General Revenues:				
Taxes:				
Property taxes				
Local option tax				
TIF				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Investment earnings				
Miscellaneous				
Gain (Loss) on sale/disposal of assets/SO2 credits				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year, as restated, see note 18				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,244,536)	-	(1,244,536)
(309,599)	-	(309,599)
(1,532,366)	-	(1,532,366)
(514,593)	-	(514,593)
(386,823)	-	(386,823)
(552,118)	-	(552,118)
183,336	-	183,336
(4,356,699)	-	(4,356,699)
-	266,197	266,197
-	(401,381)	(401,381)
-	21,197	21,197
-	1,160,582	1,160,582
-	1,046,595	1,046,595
(4,356,699)	1,046,595	(3,310,104)
2,722,753	-	2,722,753
813,900	-	813,900
1,672,240	-	1,672,240
366,366	(147,618)	218,748
32,022	-	32,022
497,101	-	497,101
92,984	358,459	441,443
8,930	88,749	97,679
(257,641)	1,281,616	1,023,975
(74,595)	74,595	-
5,874,060	1,655,801	7,529,861
1,517,361	2,702,396	4,219,757
14,480,408	46,578,109	61,058,517
\$ 15,997,769	49,280,505	65,278,274

Exhibit C

CITY OF PELLA, IOWA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	Major Funds				Nonmajor	
	General	Special Revenue - Road Use	Debt Service	Capital Projects	Other Governmental Funds	Total
Assets						
Cash and pooled investments	\$ 1,963,856	633,216	75,934	1,219,253	382,960	4,275,219
Receivables:						
Property tax:						
Delinquent	14,290	-	2,236	-	2,866	19,392
Succeeding year	1,830,320	-	539,400	-	421,700	2,791,420
Other tax:						
Local option	-	-	-	-	137,931	137,931
TIF delinquent	-	-	-	-	5,723	5,723
Accounts receivable, miscellaneous	2,775	2,176	-	-	-	4,951
Accrued interest	2,727	-	927	3,827	3,317	10,798
Due from other governments	17,126	-	-	11,702	-	28,828
Interfund receivable	-	469,481	-	-	-	469,481
Total assets	\$ 3,831,094	1,104,873	618,497	1,234,782	954,497	7,743,743
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 135,207	16,810	-	60,050	4,216	216,283
Salaries and benefits payable	121,706	13,463	-	-	-	135,169
Deferred revenue:						
Succeeding year property tax	1,830,320	-	539,400	-	421,700	2,791,420
Interfund payable	-	-	-	-	556,535	556,535
Compensated absences payable	100,133	17,979	-	-	-	118,112
Total liabilities	2,187,366	48,252	539,400	60,050	982,451	3,817,519
Fund balances:						
Reserved for:						
Debt Service	-	-	79,097	-	-	79,097
Permanent Trust	-	-	-	-	140,000	140,000
Other Special Purposes	-	1,056,621	-	-	338,827	1,395,448
Unreserved	1,643,728	-	-	1,174,732	(506,781)	2,311,679
Total fund balances	1,643,728	1,056,621	79,097	1,174,732	(27,954)	3,926,224
Total liabilities and fund balances	\$ 3,831,094	1,104,873	618,497	1,234,782	954,497	7,743,743

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 3,926,224
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	23,851,551
--	------------

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets.	443,204
---	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(42,740)
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Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(12,180,470)</u>
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Net assets of governmental activities (Exhibit A)	<u><u>\$ 15,997,769</u></u>
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See notes to financial statements.

Exhibit E

CITY OF PELLA, IOWA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Major Funds				Nonmajor	
	General	Special Revenue- Road Use	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property taxes	\$ 1,982,131	-	343,677	-	396,945	2,722,753
TIF revenues	-	-	-	-	1,672,240	1,672,240
Local option sales tax	-	-	-	-	813,900	813,900
Other city taxes	366,366	-	-	-	-	366,366
Licenses and permits	30,033	-	-	-	-	30,033
Use of money and property	53,686	32,235	5,926	24,580	34,590	151,017
Intergovernmental	586,250	823,893	45,675	230,368	-	1,686,186
Charges for services	350,759	198	-	-	2,737	353,694
Miscellaneous	133,655	2,079	-	4,850	43,254	183,838
Total revenues	3,502,880	858,405	395,278	259,798	2,963,666	7,980,027
Expenditures:						
Current operating:						
Public safety	1,323,301	-	-	-	15,698	1,338,999
Public works	190,018	718,820	-	-	42,366	951,204
Culture and recreation	1,461,855	-	-	-	54,382	1,516,237
Community and economic development	211,728	-	-	302,865	-	514,593
General government	338,399	-	-	-	-	338,399
Debt service	-	-	1,795,402	-	-	1,795,402
Capital projects	-	-	-	755,454	-	755,454
Total expenditures	3,525,301	718,820	1,795,402	1,058,319	112,446	7,210,288
Excess (deficiency) of revenues over (under) expenditures	(22,421)	139,585	(1,400,124)	(798,521)	2,851,220	769,739
Other financing sources (uses):						
Operating transfers to, in	451,763	-	1,338,830	1,264,979	23,000	3,078,572
Operating transfers from, (out)	(126,531)	(32,000)	-	-	(2,994,636)	(3,153,167)
Total other financing sources (uses)	325,232	(32,000)	1,338,830	1,264,979	(2,971,636)	(74,595)
Net change in fund balances	302,811	107,585	(61,294)	466,458	(120,416)	695,144
Balance beginning of year	1,340,917	949,036	140,391	708,274	92,462	3,231,080
Balance end of year	\$ 1,643,728	1,056,621	79,097	1,174,732	(27,954)	3,926,224

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 695,144

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the current year are as follows:

Capital outlays	\$ 683,842		
Depreciation expense	(859,411)		
Assets disposed of	<u>(257,641)</u>		(433,210)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

1,240,000

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	5,919		
Employer funds for benefits shifted from other funds	669,798		
Employee benefits collected through withholding	172,783		
Claims and premiums paid out	<u>(820,829)</u>		27,671

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrued regardless of when it is due.

3,284

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

(15,528)

Change in net assets of governmental activities (Exhibit B)

\$ 1,517,361

See notes to financial statements.

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Assets		
Current assets:		
Cash and pooled investments	\$ 10,334,511	538,787
Receivables:		
Accrued interest	54,012	728
Trade (net of allowance for uncollectible)	1,669,886	-
Interfund receivable	87,054	-
Inventories	850,320	-
Restricted assets (cash and pooled investments)	11,984,970	-
Total current assets	<u>24,980,753</u>	<u>539,515</u>
Non-current assets:		
Land, wastewater rights and infrastructure	7,155,281	-
Depreciable buildings, property, equipment and infrastructure, net	48,778,889	-
Deferred charge (issuance costs)	266,433	-
Total non-current assets	<u>56,200,603</u>	<u>-</u>
Total assets	<u><u>\$ 81,181,356</u></u>	<u><u>539,515</u></u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,431,443	96,311
Salaries and benefits payable	94,400	-
Deposits	54,355	-
Accrued interest payable	103,994	-
Compensated absences payable	135,910	-
Long-term debt - due within one year	1,824,000	-
Total current liabilities	<u>3,644,102</u>	<u>96,311</u>
Long-term liabilities (net of current portion):		
Compensated absences payable	147,191	-
General obligation bonds payable (net of unamortized discount)	1,184,327	-
Revenue bonds payable (net of unamortized discount)	26,925,231	-
Total long-term liabilities	<u>28,256,749</u>	<u>-</u>
Total liabilities	<u><u>31,900,851</u></u>	<u><u>96,311</u></u>
Net Assets		
Invested in capital assets, net of related debt	26,000,612	-
Restricted for debt service and improvements	11,930,615	-
Restricted other	54,355	-
Unrestricted	11,294,923	443,204
Total net assets	<u><u>\$ 49,280,505</u></u>	<u><u>443,204</u></u>

See notes to financial statements

CITY OF PELLA, IOWA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Operating revenues:		
Utility service charges	\$ 17,216,552	-
Internal service charges	-	842,581
Total revenues	<u>17,216,552</u>	<u>842,581</u>
Operating expenses:		
Personnel services	2,151,974	-
Contractual	372,796	169,283
Franchise fees	78,579	-
Materials and Supplies	7,238,037	-
Purchased power	3,111,096	-
Payments in lieu of taxes	451,426	-
Payments in lieu of services	147,618	-
Depreciation	1,861,900	-
Claims expense	-	651,546
Total operating expenses	<u>15,413,426</u>	<u>820,829</u>
Operating income	<u>1,803,126</u>	<u>21,752</u>
Non-operating revenues (expenses):		
Debt costs and interest	(904,149)	-
Investment earnings	358,459	5,919
Sales of fixed assets/SO2 credits	1,281,616	-
Other revenues	88,749	-
Total non-operating revenues	<u>824,675</u>	<u>5,919</u>
Income before operating transfers	2,627,801	27,671
Transfers in	170,000	-
Transfers (out)	(95,405)	-
Net transfers	<u>74,595</u>	<u>-</u>
Change in net assets	2,702,396	27,671
Net assets beginning of year, as restated (note 18)	<u>46,578,109</u>	<u>415,533</u>
Net assets end of year	<u>\$ 49,280,505</u>	<u>443,204</u>

See notes to financial statements.

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	\$ 17,082,807	-
Cash received from internal service charges	-	842,581
Cash payments to employees for services	(2,132,673)	-
Cash payments for goods and services	(11,283,621)	(797,002)
Cash payments in lieu of services	(147,618)	-
Net cash provided by operating activities	<u>3,518,895</u>	<u>45,579</u>
Cash flows from non-capital financing activities:		
Miscellaneous receipts	88,749	-
Decrease in interfund receivable	57,337	-
Transfers in	170,000	-
Transfers (out)	(95,405)	-
Net cash provided by non-capital financing activities	<u>220,681</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,107,727)	-
Principal paid on long-term debt and refunding	(1,780,000)	-
Interest and other long-term debt cost	(863,706)	-
Discounts paid on new issue	(19,704)	-
Issuance costs paid on new issue	(36,385)	-
Proceeds from sale of capital asset/SO2 credits	1,281,616	-
Long-term debt proceeds	7,000,000	-
Net cash provided by capital and related financing activities	<u>1,474,094</u>	<u>-</u>
Cash flows from investing activities:		
Proceeds to investments	1,892,536	41,193
Investment income	334,436	5769
Net cash provided by investing activities	<u>2,226,972</u>	<u>46,962</u>
Net increase in cash and cash equivalents	7,440,642	92,541
Cash and cash equivalents at beginning of year	<u>4,394,649</u>	<u>249,659</u>
Cash and cash equivalents at end of year	<u><u>\$ 11,835,291</u></u>	<u><u>342,200</u></u>

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
<i>Continued from previous page</i>		
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,803,126	21,752
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,861,900	-
Change in assets and liabilities:		
(Increase) decrease in receivables	(179,903)	-
(Increase) in inventory	(147,904)	-
Increase (decrease) in accounts payable	116,451	23,827
Increase in accrued expenses	11,604	-
Increase in compensated absences	7,463	-
Increase in deposits held	46,158	-
Net cash provided by operating activities	<u>\$ 3,518,895</u>	<u>45,579</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the combining balance sheet:		
Current assets:		
Cash and investments	\$ 22,319,481	538,787
Less items not meeting definition of cash equivalent:		
Certificates of deposit	(10,303,670)	(193,202)
Iowa Public Agency Investment Trust	(180,520)	(3,385)
	<u>(10,484,190)</u>	<u>(196,587)</u>
Cash and cash equivalents at year end	<u>\$ 11,835,291</u>	<u>342,200</u>

See notes to financial statements.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule Provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety (police and fire), public works, wastewater, water, electricity, culture, recreation, planning and zoning, public improvements and general administrative services.

The financial statements of the City of Pella, Iowa, are prepared in accordance with U.S. generally accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other Non-Major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, and General Government.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The following are the enterprise funds of the City:

Water Utility - The water utility accounts for the operation of a municipally owned water system, which provides services to the residents of the City.

Sewer Utility - The sewer utility accounts for the operation of a municipally owned sewage collection and treatment facility, which provides services to the residents of the City.

Sanitation Utility - The sanitation utility accounts for the operation of a sanitation collection system, which provides services to the residents of the City.

Electric Utility - The electric utility accounts for the operation of a municipally owned electric system which provides service to the residents of the City.

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These nonmajor governmental funds are grouped for financial statement reporting purposes:

The Special Revenue funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business type activities, which are presented as internal balances and eliminated in the total primary governmental column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business type activities have not been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or 60 days thereafter to pay liabilities of the current period.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgements are recognized as expenditures only when incurred. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements.

The proprietary fund of the City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increase (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and negotiable certificates of deposit which are stated at cost.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Inventories - Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2005 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2004.

Interfund Receivables and Payables - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

Roads	20-50
Sewer, Water and Drainage Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

In June, 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Statement allows a delay of up to 4 years from the initial GASB No. 34 implementation for recognizing past acquisitions of infrastructure if the cost of determining that figure is prohibitive within the current year. The City has elected to take that time to try to internally determine original costs of infrastructure and save the cost of hiring an outside party to estimate its value. As such, only current additions of infrastructure have been added this year.

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water and sewer funds were financed with existing revenues, no interest on debt was incurred or capitalized. Capital improvements in the electric fund were funded through electric revenue bonds. Interest costs of \$236,121 related to the debt were capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2005.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Balances – In the governmental fund financial statements, reservations of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Deficit Fund Balance - The Special Revenue Funds financed with Tax Increment Financing - Bos Landen and the Pella Business Corridor - both continue to operate in a deficit situation. Bos Landen had negative net assets of \$86,141; the Pella Business Corridor has negative net assets of \$465,085. The deficits are due to interfund payables. The City intends to pay back the interfund payable from future TIF revenues.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds, except Trust funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Legally adopted budgets may be prepared on a cash basis or on a basis consistent with U.S. generally accepted accounting principals.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund or fund type. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program.

(2) Cash and Pooled Investments

The City's deposits at June 30, 2005 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's reporting entity considers highly liquid investment (including restricted assets) with an original maturity of less than three months when purchased to be cash equivalents.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2005 are as follows:

Type	Carrying Amount	Market Value
Certificates of deposit	\$ 12,305,829	12,305,829
Iowa Public Agency Investment Trust	215,597	215,597
Treasury Bonds	14,555	14,555
Federal Home Loan Bank Bond	32,325	32,325
Government Mutual Fund	2,912	2,912
Total	<u>\$ 12,571,218</u>	<u>12,571,218</u>

The City had investments in the Iowa Public Agency Investment Trust which are valued for all funds at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. At June 30, 2005, the amortized cost was \$215,597. This investment is not subject to risk categorization.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(3) Trade Accounts Receivable and Allowance for Uncollectibles

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Sewer, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts more than 60 days old and 50% of accounts more than 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Sewer and Sanitation. Amounts are as follows: \$109,406, \$23,024, \$22,097 and \$16,852, respectively.

(4) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(5) Interfund Receivables/Payables

Since July 1, 2001 interfund receivables have accrued interest at a rate of 6% compounded annually.

The detail of interfund receivables/payable for the year ended June 30, 2005 is as follows:

<u>Receivable to:</u>	<u>Payable from:</u>	<u>Amount</u>
Electric Fund	Bos Landen TIF	\$ 87,054
Road Use Fund	Pella Business Corridor TIF	469,481

Funds were loaned to provide cash for TIF needs.

Interfund payables are expected to be paid from future TIF revenues and are not expected to be paid within one year.

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(6) Transfers to/from Other Funds

The details of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer in	Transfer (out)	Amount
General	Employee Benefits - Special Revenue	\$ 398,467
General	Sanitation	53,296
Debt Service	Local sales tax - Special Revenue	227,185
Debt Service	Bos Landen-TIF - Special Revenue	487,308
Debt Service	Pella Business Corridor-TIF - Special Revenue	624,337
Art Center-Special Revenue	Pella Community Center - Special Revenue	23,000
Capital	General	126,531
Capital	Water	11,069
Capital	Wastewater	11,069
Capital	Electric	19,971
Capital-Pella Outdoor Aquatic	Local sales tax - Special Revenue	641,339
Capital-Local Option	Local sales tax - Special Revenue	120,000
Capital-RUT	Road use - Special Revenue	32,000
Capital-Pella Bus. Corridor	Pella Business Corridor-TIF - Special Revenue	303,000
Wastewater	Pella Business Corridor-TIF - Special Revenue	170,000

Transfers to/from other funds as reported in these financial statements include transfers between funds of the City of Pella. Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(7) SO2 Emission Credit

The Electric Department earns emission credits throughout the year so long as its emissions are below the set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however. At June 30, 2005, the City held 5,200 credits with a value of approximately \$750 per credit for a total value of \$3,900,000. Should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs.

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(8) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

Governmental activities:	Adjusted Balance 6/30/2004	Additions	Deletions and Transfers	Ending Balance 6/30/2005
Capital assets not being depreciated:				
Land	\$ 2,513,114	133,734	-	2,646,848
Construction in progress:				
Aquatic Center	2,927,871	172,989	-	3,100,860
Library Street Parking Lot	-	130	-	130
W. 3rd Storm Sewer Repairs	-	21,172	-	21,172
New City Hall	-	8,642	-	8,642
Utility Billing and Financial System	52,984	43,817	(96,801)	-
Airport Turnaround extension	991	209,544	(210,535)	-
Brush Chipper	456	15,944	(16,400)	-
Total capital assets not being depreciated	5,495,416	605,972	(323,736)	5,777,652
Capital assets being depreciated:				
Vehicles	-	52,204	-	52,204
Buildings and improvements	18,419,206	16,716	(309,020)	18,126,902
Machinery and equipment	6,746,280	122,151	(505,256)	6,363,175
Infrastructure	1,917,807	210,535	-	2,128,342
Total capital assets being depreciated	27,083,293	401,606	(814,276)	26,670,623
Less accumulated depreciation for:				
Vehicles	-	1,411	-	1,411
Buildings and improvements	2,515,529	468,155	(54,403)	2,929,281
Machinery and equipment	5,729,191	338,315	(502,232)	5,565,274
Infrastructure	49,228	51,530	-	100,758
Total accumulated depreciation	8,293,948	859,411	(556,635)	8,596,724
Total capital assets being depreciated net	18,789,345	(457,805)	(257,641)	18,073,899
Governmental activities capital assets, net	\$ 24,284,761	148,167	(581,377)	23,851,551

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Business type activities:	Beginning Balance 6/30/2004	Additions	Deletions and Transfers	Ending Balance 6/30/2005
Water Fund				
Capital assets not being depreciated:				
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Valveless Filter Modification	-	3,072	-	3,072
Chlorine Meter	4,610	1,145	(5,755)	-
Total capital assets not being depreciated	122,970	4,217	(5,755)	121,432
Capital assets being depreciated:				
Buildings and improvements	9,515,953	-	-	9,515,953
Machinery and equipment	120,866	91,778	-	212,644
Furniture and fixtures	1,079	-	-	1,079
Vehicles	78,098	2,041	-	80,139
Infrastructure	1,167,209	-	-	1,167,209
Total capital assets being depreciated	10,883,205	93,819	-	10,977,024
Less accumulated depreciation for:				
Buildings and improvements	3,954,015	247,720	-	4,201,735
Machinery and equipment	103,018	9,823	-	112,841
Furniture and fixtures	1,079	-	-	1,079
Vehicles	72,722	2,152	-	74,874
Infrastructure	61,252	42,722	-	103,974
Total accumulated depreciation	4,192,086	302,417	-	4,494,503
Total capital assets being depreciated net	6,691,119	(208,598)	-	6,482,521
Business type activity-water-capital assets net	\$ 6,814,089	(204,381)	(5,755)	6,603,953

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

	Beginning Balance 6/30/2004	Additions	Deletions and Transfers	Ending Balance 6/30/2005
Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Total capital assets not being depreciated	907,049	-	-	907,049
Capital assets being depreciated:				
Buildings and improvements	16,720,245	-	-	16,720,245
Machinery and equipment	689,644	77,009	-	766,653
Furniture and fixtures	4,604	-	-	4,604
Vehicles	61,994	-	-	61,994
Infrastructure	6,992,036	-	-	6,992,036
Total capital assets being depreciated	24,468,523	77,009	-	24,545,532
Less accumulated depreciation for:				
Buildings and improvements	9,000,232	435,875	-	9,436,107
Machinery and equipment	469,846	41,516	-	511,362
Furniture and fixtures	4,604	-	-	4,604
Vehicles	56,006	2,703	-	58,709
Infrastructure	418,863	239,218	-	658,081
Total accumulated depreciation	9,949,551	719,312	-	10,668,863
Total capital assets being depreciated net	14,518,972	(642,303)	-	13,876,669
Business type activity, sewer - capital assets, net	\$ 15,426,021	(642,303)	-	14,783,718

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

	Beginning Balance 6/30/2004	Additions	Deletions and Transfers	Ending Balance 6/30/2005
Electric Fund				
Capital assets not being depreciated:				
Land	\$ 136,234	414,490	-	550,724
Construction in progress:				
Diesel Plant	10,181,016	456,909	(10,637,925)	-
Council Bluffs Unit Four	2,126,955	3,449,121	-	5,576,076
Middle S/SE Conversion	1,938,573	27,354	(1,965,927)	-
Total capital assets not being depreciated	14,382,778	4,347,874	(12,603,852)	6,126,800
Capital assets being depreciated:				
Buildings and improvements	9,976,542	10,228,488	-	20,205,030
Machinery and equipment	20,754,039	1,965,927	-	22,719,966
Furniture and fixtures	39,717	-	-	39,717
Vehicles	378,451	-	-	378,451
Total capital assets being depreciated	31,148,749	12,194,415	-	43,343,164
Less accumulated depreciation for:				
Buildings and improvements	8,776,375	48,799	-	8,825,174
Machinery and equipment	5,018,274	760,018	-	5,778,292
Furniture and fixtures	39,717	-	-	39,717
Vehicles	248,928	31,354	-	280,282
Total accumulated depreciation	14,083,294	840,171	-	14,923,465
Total capital assets being depreciated net	17,065,455	11,354,244	-	28,419,699
Business type activity, electric-capital assets net	\$ 31,448,233	15,702,118	(12,603,852)	34,546,499

Depreciation was charged by the City as follows:

Governmental activities:	
General Government	\$ 163,211
Public Safety	92,994
Public Works	188,402
Culture and recreation	414,804
	<u>859,411</u>
Unallocated depreciation	-
Total governmental activities depreciation expense	<u>\$ 859,411</u>
Business type activities:	
Water	\$ 302,417
Sewer	719,312
Electric	840,171
	<u>\$ 1,861,900</u>

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(9) Long-Term Liabilities

The City currently has long-term debt obligations in the form of general obligation bonds, capital loans and revenue bonds. The City does not have any special assessment debt. The following is a summary of long-term obligation transactions of the City of Pella for the year ended June 30, 2005:

	Balance 7/1/2004	Incurred	Satisfied	Balance 6/30/2005	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
Capital loans payable	\$ 300,000	-	(75,000)	225,000	75,000	150,000
General obligation bonds payable	13,000,000	-	(1,165,000)	11,835,000	1,100,000	10,735,000
Total governmental activities	\$ 13,300,000	-	(1,240,000)	12,060,000	1,175,000	10,885,000
Business type activities:						
General obligation bonds payable	\$ 1,675,000	-	(375,000)	1,300,000	105,000	1,195,000
Revenue bonds payable	23,215,000	7,000,000	(1,405,000)	28,810,000	1,719,000	27,091,000
Total	24,890,000	7,000,000	(1,780,000)	30,110,000	1,824,000	28,286,000
Unamortized discount	(174,274)	(19,704)	17,536	(176,442)	-	(176,442)
Total business type activities	\$ 24,715,726	6,980,296	(1,762,464)	29,933,558	1,824,000	28,109,558

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding net of unamortized discount of \$10,673 at June 30, 2005 are as follows:

Purpose	Date of Issue	Interest Rates	Amount Originally Issued	Outstanding June 30, 2005
General Government G/O	1999	4.90-5.50%	\$ 2,610,000	2,175,000
General Government G/O	1997	4.00-5.00%	3,360,000	2,395,000
General Government G/O	2000	5.25-5.65%	1,800,000	1,610,000
General Government G/O	2001	3.40-4.15%	2,360,000	1,660,000
Proprietary-Sewer G/O	2001	4.00-4.75%	1,505,000	1,300,000
General Government G/O	2002	1.60-3.25%	1,600,000	1,055,000
General Government G/O	2003	1.30-3.50%	1,370,000	910,000
General Government G/O	2003	2.00-3.50%	2,300,000	2,030,000
			16,905,000	13,135,000
Unamortized discount			(36,490)	(10,673)
General obligation bonds net of unamortized discounts			\$ 16,868,510	13,124,327

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Annual debt service requirements to maturity for general obligation bonds is as follows:

Year ending June 30,	Enterprise Funds		General		Total	
	Sewer		Debt			
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 105,000	57,070	1,100,000	498,925	1,205,000	555,995
2007	110,000	52,870	1,255,000	462,138	1,365,000	515,008
2008	115,000	48,470	1,285,000	417,381	1,400,000	465,851
2009	120,000	43,755	1,355,000	369,144	1,475,000	412,899
2010	125,000	38,715	1,395,000	316,200	1,520,000	354,915
Thereafter	725,000	104,530	5,445,000	1,171,135	6,170,000	1,275,665
Total	<u>\$ 1,300,000</u>	<u>345,410</u>	<u>11,835,000</u>	<u>3,234,923</u>	<u>13,135,000</u>	<u>3,580,333</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	1999	\$ 2,610,000	June 1, 2008
General Government G/O	1997	3,360,000	June 1, 2006
General Government G/O	2000	1,800,000	Not subject to call
General Government G/O	2001	2,360,000	June 1, 2008
Proprietary-Sewer G/O	2001	1,505,000	June 1, 2009
General Government G/O	2002	1,600,000	Not subject to call
General Government G/O	2003	1,370,000	June 1, 2008
General Government G/O	2003	2,300,000	June 1, 2015

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2005:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
General Obligation Bonds	\$ 14,675,000	-	(1,540,000)	13,135,000
Unamortized discount	(11,723)	-	1,050	(10,673)
Net General Obligation Bonds	<u>\$ 14,663,277</u>	<u>-</u>	<u>(1,538,950)</u>	<u>13,124,327</u>

Capital Loan Notes

The City acquired a capital loan in 1994 to provide funds for the acquisition of capital assets for the Bos Landen Urban renewal project. Capital loan notes currently outstanding are as follows:

Purpose	Date of Issue	Interest Rates	Originally Issued	Outstanding 6/30/2005
TIF Urban Renewal	1994	5.35-6.30%	\$ 550,000	225,000
Total			<u>\$ 550,000</u>	<u>225,000</u>

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Annual debt service requirements to maturity for capital loan notes are as follows:

Year ended June 30,	General Long-Term Debt Account Group	
	Principal	Interest
2006	\$ 75,000	13,950
2007	75,000	9,375
2008	75,000	4,725
Total	<u>\$ 225,000</u>	<u>28,050</u>

Capital loan notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various capital loan notes may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
TIF Urban Renewal	1994	\$ 550,000	June 1, 2004

The following is a summary of the transactions for the capital loan notes of the City for the year ended June 30, 2005:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Capital Loan Notes	\$ 300,000	-	(75,000)	225,000

Revenue Bonds

The City has issued bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, for the water, sewer, and electric utilities, net of unamortized discounts of \$165,769 at June 30, 2005, are as follows:

Purpose	Date of Issue	Interest Rates	Originally Issued	Outstanding 6/30/2005
Water	1995	5.20-6.00%	\$ 3,600,000	3,090,000
Electric Refunding	1999	3.60-4.10%	3,755,000	630,000
Sewer Improvements	1999	3.92%	2,800,000	2,398,000
Sewer Improvements	2000	4.30%	1,604,000	1,381,000
Sewer Improvements	2000	4.30%	641,000	461,000
Electric	2001	4.00-4.625%	9,000,000	6,850,000
Water	2003	2.10-3.90%	1,000,000	1,000,000
Electric	2004	3.25-3.90%	6,000,000	6,000,000
Electric	2005	2.80-4.10%	7,000,000	7,000,000
			<u>35,400,000</u>	<u>28,810,000</u>
Unamortized discount			(283,984)	(165,769)
Net Revenue bonds			<u>\$ 35,116,016</u>	<u>28,644,231</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ended June 30,	Enterprise Funds						Total	
	Water		Sewer		Electric		Principal	Interest
2006	\$ 330,000	213,063	194,000	173,208	1,195,000	804,583	1,719,000	1,190,854
2007	345,000	198,142	202,000	165,287	1,005,000	755,447	1,552,000	1,118,876
2008	365,000	181,973	208,000	157,038	1,245,000	717,741	1,818,000	1,056,752
2009	385,000	164,067	217,000	148,547	1,290,000	671,372	1,892,000	983,986
2010	405,000	144,573	226,000	139,687	1,345,000	622,652	1,976,000	906,912
Thereafter	2,260,000	377,582	3,193,000	834,902	14,400,000	2,904,982	19,853,000	4,117,466
Total	\$ 4,090,000	1,279,400	4,240,000	1,618,669	20,480,000	6,476,777	28,810,000	9,374,846

Revenue bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Water	1995	\$ 3,600,000	June 1, 2008
Electric Refunding	1999	3,755,000	Not subject to call
Sewer Improvements	1999	2,800,000	Dec. 15, 2009
Sewer Improvements	2000	1,604,000	Dec. 15, 2009
Sewer Improvements	2000	641,000	Dec. 15, 2009
Electric	2001	9,000,000	June 1, 2009
Water	2003	1,000,000	June 1, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013

The following is a summary of the transactions for revenue bonds, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2005:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Water revenue bonds	\$ 4,165,000	-	(75,000)	4,090,000
Unamortized discount	(41,311)	-	3,944	(37,367)
Net water revenue bonds	4,123,689	-	(71,056)	4,052,633
Sewer revenue bonds	4,425,000	-	(185,000)	4,240,000
Net sewer revenue bonds	4,425,000	-	(185,000)	4,240,000
Electric revenue bonds	14,625,000	7,000,000	(1,145,000)	20,480,000
Unamortized discount	(121,240)	(19,704)	12,542	(128,402)
Net electric revenue bonds	14,503,760	6,980,296	(1,132,458)	20,351,598
Total net revenue bonds	\$ 23,052,449	6,980,296	(1,388,514)	28,644,231

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Long-term compensated absences represent the vested sick pay an employee would receive if they left employment. No employees with vested sick pay are expected to leave, so all time over the current year's allocation is considered long-term. Long-term compensated absences are as follows:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Long-term compensated absences				
Governmental	\$ 104,942	15,528	-	120,470
Water	36,925	3,871	-	40,796
Sewer	26,162	6,795	-	32,957
Electric	51,231	22,106	-	73,337
Sanitation	77	24	-	101
Total long-term compensated absences	\$ 219,337	48,324	-	267,661

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges. The details of the bond discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance 7/1/2005	Incurred	Amortized	Balance 6/30/2005
Business type activities:				
Sewer general obligation bond	\$ 12,700	-	(1,154)	11,546
Sewer SFR Loan	52,118	-	(3,258)	48,860
Water revenue bonds	47,850	-	(4,481)	43,369
Electric revenue bonds	140,287	36,385	(14,014)	162,658
Total deferred issuance costs	\$ 252,955	36,385	(22,907)	266,433

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(10) Net Assets Restricted by Enabling Legislation

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Debt restricted - Water Bond Reserve	\$ -	460,000
Debt restricted - Wastewater Bond Reserve	-	447,300
Debt restricted - Electric Bond Reserve	-	2,009,148
Debt restricted - Electric Improvement Reserve	-	1,500,000
Debt restricted - CB-4 bond money	-	7,514,167
Debt restricted - Debt Service fund balance	36,357	-
Special purposes - Road use	1,056,621	-
Special purposes - Pella Clothing Bank	2,086	-
Special purposes - Police Reserve	1,020	-
Special purposes - Community Development	4,242	-
Special purposes - Library Gifts/Memorials	62,318	-
Special purposes - Pella Community Center	8,346	-
Special purposes - Swim Team	4,364	-
Special purposes - Art Center	25,863	-
Special purposes - Airport	106,956	-
Special purposes - Police Asset Forfeiture	1,857	-
Special purposes - Soccer Complex	16,723	-
Special purposes - Parks Development	32,860	-
Special purposes - Carnegie-Viersen Trust Earnings - Library operations	19,330	-
Special purposes - Carnegie-Viersen-Van Gorp Trust Earnings - Educational purposes	954	-
Special purposes - Carnegie-Viersen-Van Gorp Trust - Library Repairs	50,000	-
Special purposes - Van Gorp Trust Earnings - Information Windmill Repairs	1,908	-
Nonexpendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonexpendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Other - Customer utility deposits	-	54,355
Total net restricted assets	<u>\$ 1,571,805</u>	<u>11,984,970</u>

(11) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Self-Insured Health Care Plan - The City of Pella has a self-insured health care plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the "stop-loss" feature of the plan. The maximum exposure for one individual in a twelve month period is \$50,000, and the maximum exposure for the group as a whole is a computed amount based on 120 percent of the actuarially computed expected claims for the group. Claims in excess of the stop-loss ceilings are paid by the stop-loss insurance company.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

At June 30, 2005, the plan held \$538,787 cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$92,629, which is part of the accounts payable balance of the Internal Service Fund.

(12) Construction Contracts

The City entered into a contract totaling \$188,060 for a portion of the Aquatic Center. At June 30, 2005, \$178,657 had been paid towards this contract. The remaining amount will be paid as work on the project progresses.

The City Municipal Electric Utility entered into a contract totaling \$16,195,594 for CB4. At June 30, 2005, \$5,320,000 of CB4 had been paid. Additional costs such as capitalized interest, unrelated to construction contracts, are included in the total cost for the project in the construction in progress schedule. The remaining amount of the contract will be paid as work on the project progresses.

(13) Retirement Plans

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003, were \$211,252, \$212,532, and \$229,529, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 24.92%, 20.48% and 17% of earnable compensation for the years ended June 30, 2005, 2004 and 2003, respectively. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$139,834, \$103,678, and \$91,419, respectively, which met the required minimum contribution for each year.

CITY OF PELLA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(14) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(15) Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Marion County Emergency Management Commission.

(16) Related Party Transactions

The City had business transactions between the City and Eagle Electric, Inc. (a corporation in which Council Member Bruce Schiebout is a stockholder), for electrical work totaling \$870 during the year ended June 30, 2005. There were no related payables to Eagle Electric, Inc. at June 30, 2005.

The City had business transactions between the City and De Jong Greenhouses (a business in which Mark De Jong, Council Member and Mayor Pro Tem, is an owner), for planting materials totaling \$726 during the year ended June 30, 2005. There were no related payables to De Jong Greenhouses at June 30, 2005.

(17) Major Customer

During the year ended June 30, 2005, charges for services provided by the City of Pella Municipal Electric Utility to Pella Corporation were \$3,196,645 and to Vermeer Manufacturing were \$1,966,803. These charges represent 24.10% and 14.83%, respectively, of total charges for electric services.

(18) Prior Period Adjustment

Last year the value of the SO2 Credits held by the electric department were added to the financial statements based on general asset recognition rules. More specific information is now known from the Federal Energy Regulatory Commission which states that only purchased credits are to be recorded on the financial statements. The City of Pella Electric Utility's credits have all been earned, not purchased. Therefore, the beginning fund balance has been reduced by \$808,515, the June 30, 2004 value of the SO2 credits.

CITY OF PELLA, IOWA

Required Supplementary Information

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds-Actual	Proprietary Funds- Actual
Revenues:		
Property taxes	\$ 2,722,753	-
TIF revenues	1,672,240	-
Other city taxes	1,180,266	-
Licenses and permits	30,033	-
Use of money and property	151,017	358,459
Intergovernmental	1,686,186	-
Charges for services	353,694	17,216,552
Miscellaneous	183,838	-
Total revenues	<u>7,980,027</u>	<u>17,575,011</u>
Expenditures/Expenses:		
Public safety	1,338,999	-
Public works	951,204	-
Culture and recreation	1,516,237	-
Community and economic development	514,593	-
General government	338,399	-
Debt service	1,795,402	-
Capital projects	755,454	-
Business type activities	-	20,359,048
Total expenditures/expenses	<u>7,210,288</u>	<u>20,359,048</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	769,739	(2,784,037)
Other financing sources (uses):		
Operating transfers from other funds	3,078,572	170,000
Operating transfers to other funds	(3,153,167)	(95,405)
Other	-	88,749
Debt Proceeds	-	7,000,000
Proceeds from sale of assets	-	1,281,616
Total other financing sources (uses)	<u>(74,595)</u>	<u>8,444,960</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	695,144	5,660,923
Balance beginning of year	<u>3,231,080</u>	<u>17,352,537</u>
Balance end of year	<u>\$ 3,926,224</u>	<u>23,013,460</u>

See accompanying independent auditor's report.

See the following page for GAAP to modified accrual conversion necessary for this comparison.

Total Actual	Budget		Variance Favorable (Unfavorable)
	Original	Final	
2,722,753	2,635,186	2,683,820	38,933
1,672,240	1,432,200	1,432,200	240,040
1,180,266	832,757	937,757	242,509
30,033	12,900	12,900	17,133
509,476	27,700	150,730	358,746
1,686,186	1,416,050	1,428,184	258,002
17,570,246	5,278,450	18,207,200	(636,954)
183,838	71,000	102,000	81,838
25,555,038	11,706,243	24,954,791	600,247
1,338,999	1,335,000	1,349,000	10,001
951,204	916,850	916,850	(34,354)
1,516,237	1,446,800	1,486,482	(29,755)
514,593	578,550	578,550	63,957
338,399	350,900	350,900	12,501
1,795,402	1,775,968	1,775,968	(19,434)
755,454	1,889,800	1,925,150	1,169,696
20,359,048	4,806,000	23,288,583	2,929,535
27,569,336	13,099,868	31,671,483	4,102,147
(2,014,298)	(1,393,625)	(6,716,692)	4,702,394
3,248,572	-	-	(3,248,572)
(3,248,572)	(2,937,167)	(4,703,877)	(1,455,305)
88,749	2,937,167	10,733,877	10,645,128
7,000,000	-	-	(7,000,000)
1,281,616	-	-	(1,281,616)
8,370,365	-	6,030,000	(2,340,365)
6,356,067	(1,393,625)	(686,692)	\$ 7,042,759
20,583,617	7,060,442	20,435,980	
26,939,684	5,666,817	19,749,288	

CITY OF PELLA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a city budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund or fund type. These eight functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated functional level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$18,571,615. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements in the public works, culture and recreation and debt service functions exceeded the amounts budgeted.

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE
PROPRIETARY-GAAP TO MODIFIED ACCRUAL RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 17,575,011	-	17,575,011
Expenses:			
Business type activities	16,317,575	4,041,473	20,359,048
Total expenses	16,317,575	4,041,473	20,359,048
Excess (deficiency) of revenues under expenses	1,257,436	(4,041,473)	(2,784,037)
Other financing sources (uses):			
Operating transfers from other funds	170,000	-	170,000
Operating transfers to other funds	(95,405)	-	(95,405)
Bond proceeds	-	7,000,000	7,000,000
Sale of fixed assets/SO2 credits	1,281,616	-	1,281,616
Other revenues	88,749	-	88,749
Total other financing sources	1,444,960	7,000,000	8,444,960
Increase in net assets	2,702,396	2,958,527	5,660,923
Beginning net assets, as restated (note 18)	46,578,109	(29,225,572)	17,352,537
Ending net assets	\$ 49,280,505	(26,267,045)	23,013,460

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$4,041,473 adjustment to proprietary expenditures. The budget also includes all debt proceeds received. This adjustment explains the \$7,000,000 increase in the proprietary fund under other financing sources (uses).

CITY OF PELLA, IOWA

Other Supplementary Information

Schedule 1

CITY OF PELLA, IOWA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue Funds						
	Tax Increment Financing	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets							
Cash and pooled investments	\$ 17,551	(113,682)	(2,866)	2,078	1,017	4,231	64,144
Receivable:							
Property tax:							
Delinquent	-	-	2,866	-	-	-	-
Succeeding year	-	-	421,700	-	-	-	-
Other tax:							
Local option	-	137,931	-	-	-	-	-
TIF delinquent	5,723	-	-	-	-	-	-
Accrued interest	820	1,411	-	8	3	11	147
Total assets	\$ 24,094	25,660	421,700	2,086	1,020	4,242	64,291
Liabilities and Fund Balance							
Accounts payable	\$ -	-	-	-	-	-	1,973
Deferred Revenue:							
Succeeding year property tax	-	-	421,700	-	-	-	-
Interfund payable	556,535	-	-	-	-	-	-
Total liabilities	556,535	-	421,700	-	-	-	1,973
Reserved:							
Permanent trust	-	-	-	-	-	-	-
Other special purposes	-	-	-	2,086	1,020	4,242	62,318
Unreserved	(532,441)	25,660	-	-	-	-	-
Total fund balances	(532,441)	25,660	-	2,086	1,020	4,242	62,318
Total liabilities and fund balance	\$ 24,094	25,660	421,700	2,086	1,020	4,242	64,291

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds								Permanent Funds		Total Nonmajor Governmental Funds
Pella Community Center Trust	Swim Team Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
8,304	5,107	25,863	106,631	1,811	17,848	33,189	50,801	59,330	101,603	382,960
-	-	-	-	-	-	-	-	-	-	2,866
-	-	-	-	-	-	-	-	-	-	421,700
-	-	-	-	-	-	-	-	-	-	137,931
-	-	-	-	-	-	-	-	-	-	5,723
42	4	-	325	46	-	42	153	-	305	3,317
8,346	5,111	25,863	106,956	1,857	17,848	33,231	50,954	59,330	101,908	954,497
-	747	-	-	-	1,125	371	-	-	-	4,216
-	-	-	-	-	-	-	-	-	-	421,700
-	-	-	-	-	-	-	-	-	-	556,535
-	747	-	-	-	1,125	371	-	-	-	982,451
-	-	-	-	-	-	-	-	40,000	100,000	140,000
8,346	4,364	25,863	106,956	1,857	16,723	32,860	50,954	19,330	1,908	338,827
-	-	-	-	-	-	-	-	-	-	(506,781)
8,346	4,364	25,863	106,956	1,857	16,723	32,860	50,954	59,330	101,908	(27,954)
8,346	5,111	25,863	106,956	1,857	17,848	33,231	50,954	59,330	101,908	954,497

Schedule 2

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR OTHER GOVERNMENTAL FUNDS
 Year ended June 30, 2005

	Special Revenue Funds								
	Tax Increment Financing	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center	Swim Team Trust
Revenues:									
Property taxes	\$ -	-	396,945	-	-	-	-	-	-
TIF	1,672,240	-	-	-	-	-	-	-	-
Local option tax	-	813,900	-	-	-	-	-	-	-
Charges for services (fees)	-	-	-	2,737	-	-	-	-	-
	1,672,240	813,900	396,945	2,737	-	-	-	-	-
Use of money and property:									
Interest on investments	8,938	9,959	1,522	53	19	74	2,422	292	41
Gain on investments	-	-	-	-	-	-	-	-	-
Rent	8,938	9,959	1,522	53	19	74	2,422	292	41
Miscellaneous:									
State Grants	-	-	-	-	-	-	1,014	-	-
Donations	-	-	-	-	-	-	7,133	7,555	6,264
	-	-	-	-	-	-	8,147	7,555	6,264
Total revenues	1,681,178	823,859	398,467	2,790	19	74	10,569	7,847	6,305
Expenditures:									
Public Safety:									
Property and Equipment	-	-	-	-	-	-	-	-	-
Public works:									
Supplies & equipment	-	-	-	-	-	-	-	-	-
Interest on interfund loan	40,898	-	-	-	-	-	-	-	-
	40,898	-	-	-	-	-	-	-	-
Culture and recreation:									
Supplies and services	-	-	-	2,950	-	-	16,594	3,138	5,926
Total expenditures	40,898	-	-	2,950	-	-	16,594	3,138	5,926
Excess of revenues over expenditures	1,640,280	823,859	398,467	(160)	19	74	(6,025)	4,709	379
Other financing sources (uses):									
Operating transfer to, in	-	-	-	-	-	-	-	-	-
Operating transfer from, (out)	(1,584,645)	(988,524)	(398,467)	-	-	-	-	(23,000)	-
Total other financing sources (uses)	(1,584,645)	(988,524)	(398,467)	-	-	-	-	(23,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	55,635	(164,665)	-	(160)	19	74	(6,025)	(18,291)	379
Fund balances beginning of year	(588,076)	190,325	-	2,246	1,001	4,168	68,343	26,637	3,985
Fund balances end of year	\$ (532,441)	25,660	-	2,086	1,020	4,242	62,318	8,346	4,364

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds						Permanent Funds		
Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie-Viersen Trust Fund	Van Gorp Trust	Total Nonmajor Governmental Funds
-	-	-	-	-	-	-	-	396,945
-	-	-	-	-	-	-	-	1,672,240
-	-	-	-	-	-	-	-	813,900
-	-	-	-	-	-	-	-	2,737
-	-	-	-	-	-	-	-	2,885,822
86	2,074	294	97	392	954	2,353	1,908	31,478
-	-	-	-	2,175	-	937	-	937
-	-	-	-	-	-	-	-	2,175
86	2,074	294	97	2,567	954	3,290	1,908	34,590
3,538	-	-	3,000	14,750	-	-	-	1,014
3,538	-	-	3,000	14,750	-	-	-	42,240
3,538	-	-	3,000	14,750	-	-	-	43,254
3,624	2,074	294	3,097	17,317	954	3,290	1,908	2,963,666
-	-	15,698	-	-	-	-	-	15,698
-	1,468	-	-	-	-	-	-	1,468
-	-	-	-	-	-	-	-	40,898
-	1,468	-	-	-	-	-	-	42,366
761	-	-	5,356	19,657	-	-	-	54,382
761	1,468	15,698	5,356	19,657	-	-	-	112,446
2,863	606	(15,404)	(2,259)	(2,340)	954	3,290	1,908	2,851,220
23,000	-	-	-	-	-	-	-	23,000
-	-	-	-	-	-	-	-	(2,994,636)
23,000	-	-	-	-	-	-	-	(2,971,636)
25,863	606	(15,404)	(2,259)	(2,340)	954	3,290	1,908	(120,416)
-	106,350	17,261	18,982	35,200	50,000	56,040	100,000	92,462
25,863	106,956	1,857	16,723	32,860	50,954	59,330	101,908	(27,954)

CITY OF PELLA, IOWA
COMBINING BALANCE SHEET
TAX INCREMENT FINANCING
June 30, 2005

	Bos Landen	High Point	Pella Business Corridor	Total
Assets				
Cash and pooled investments	\$ 93	18,785	(1,327)	17,551
Receivables:				
Other tax:				
TIF delinquent	-	-	5,723	5,723
Accrued interest	820	-	-	820
Total assets	\$ 913	18,785	4,396	24,094
Liabilities and Fund Equity				
Liabilities:				
Interfund payable	\$ 87,054	-	469,481	556,535
Fund equity:				
Unreserved	(86,141)	18,785	(465,085)	(532,441)
Total liabilities and fund equity	\$ 913	18,785	4,396	24,094

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 TAX INCREMENT FINANCING
 Year ended June 30, 2005

	Bos Landen	High Point	Pella Business Corridor	Total
Revenues:				
TIF revenues	\$ 548,120	-	1,124,120	1,672,240
Use of money and property:				
Interest on investments	5,634	97	3,207	8,938
Total revenues	553,754	97	1,127,327	1,681,178
Expenditures:				
Public works:				
Interest on debt	8,663	-	32,235	40,898
Total expenditures	8,663	-	32,235	40,898
Excess of revenues over expenditures	545,091	97	1,095,092	1,640,280
Other financing uses:				
Operating transfer from, (out)	(487,308)	-	(1,097,337)	(1,584,645)
Total other financing uses	(487,308)	-	(1,097,337)	(1,584,645)
Excess (deficiency) of revenues over (under) expenditures and other uses	57,783	97	(2,245)	55,635
Fund balances beginning of year	(143,924)	18,688	(462,840)	(588,076)
Fund balances end of year	\$ (86,141)	18,785	(465,085)	(532,441)

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF NET ASSETS
 PROPRIETARY FUND TYPE-ENTERPRISE
 June 30, 2005

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Totals
Assets					
Current assets:					
Cash and pooled investments	\$1,969,034	665,356	7,657,052	43,069	10,334,511
Receivables:					
Accrued interest	5,641	2,332	45,867	172	54,012
Trade (net of allowance for uncollectible)	180,188	186,132	1,267,596	35,970	1,669,886
Interfund receivable	-	-	87,054	-	87,054
Inventories	74,929	106,442	668,949	-	850,320
Restricted assets (cash and pooled investments)	460,000	447,300	11,077,670	-	11,984,970
Total current assets	2,689,792	1,407,562	20,804,188	79,211	24,980,753
Non-current assets:					
Deferred charge (issuance costs)	43,369	60,406	162,658	-	266,433
Capital assets:					
Land, wastewater rights, and infrastructure	121,432	907,049	6,126,800	-	7,155,281
Depreciable buildings, property, equipment and infrastructure, net	6,482,521	13,876,669	28,419,699	-	48,778,889
Total non-current assets	6,647,322	14,844,124	34,709,157	-	56,200,603
Total assets	\$9,337,114	16,251,686	55,513,345	79,211	81,181,356
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 58,942	29,202	1,314,299	29,000	1,431,443
Salaries and benefits payable	17,534	12,372	63,470	1,024	94,400
Deposits	-	-	54,355	-	54,355
Accrued interest payable	17,755	19,190	67,049	-	103,994
Compensated absences payable	26,374	24,815	82,970	1,751	135,910
Long-term debt - due within one year:					
General obligation bonds payable	-	105,000	-	-	105,000
Revenue bonds payable	330,000	194,000	1,195,000	-	1,719,000
Total current liabilities	450,605	384,579	2,777,143	31,775	3,644,102
Long-term liabilities (net of current portion):					
Compensated absences payable	40,796	32,957	73,337	101	147,191
General obligation bonds payable (net of unamortized discount)	-	1,184,327	-	-	1,184,327
Revenue bonds payable (net of unamortized discount)	3,722,633	4,046,000	19,156,598	-	26,925,231
Total long-term liabilities	3,763,429	5,263,284	19,229,935	101	28,256,749
Total liabilities	4,214,034	5,647,863	22,007,078	31,876	31,900,851

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF NET ASSETS
 PROPRIETARY FUND TYPE-ENTERPRISE
 June 30, 2005

	Business Type Activities Enterprise Funds				Totals
	Water	Sewer	Electric	Sanitation	
<i>Continued from previous page</i>					
Net Assets					
Invested in capital assets, net of related debt	2,551,320	9,254,391	14,194,901	-	26,000,612
Restricted for debt service/contract	460,000	447,300	9,523,315	-	10,430,615
Restricted for improvements	-	-	1,500,000	-	1,500,000
Restricted other	-	-	54,355	-	54,355
Unrestricted	2,111,760	902,132	8,233,696	47,335	11,294,923
Total net assets	\$5,123,080	10,603,823	33,506,267	47,335	49,280,505

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND TYPE-ENTERPRISE
 June 30, 2005

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Totals
Operating revenues:					
Utility service charges	\$ 1,966,225	1,570,917	13,260,189	419,221	17,216,552
Internal service charges	-	-	-	-	-
Total revenues	1,966,225	1,570,917	13,260,189	419,221	17,216,552
Operating expenses:					
Personnel services	547,235	390,109	1,177,126	37,504	2,151,974
Contractual	-	35,529	-	337,267	372,796
Franchise fees	49,026	29,553	-	-	78,579
Materials and supplies	571,874	548,670	6,094,240	23,253	7,238,037
Purchased power	-	-	3,111,096	-	3,111,096
Payments in lieu of taxes	-	-	451,426	-	451,426
Payments in lieu of services	-	-	147,618	-	147,618
Depreciation	302,417	719,312	840,171	-	1,861,900
Claims expense	-	-	-	-	-
Total operating expenses	1,470,552	1,723,173	11,821,677	398,024	15,413,426
Operating income (loss)	495,673	(152,256)	1,438,512	21,197	1,803,126
Non-operating revenues (expenses):					
Debt costs and interest	(229,476)	(249,125)	(425,548)	-	(904,149)
Investment earnings	39,196	17,971	300,011	1,281	358,459
Sales of fixed assets/SO2 credits	2,041	-	1,279,575	-	1,281,616
Other revenues	68,089	150	11,389	9,121	88,749
Total non-operating revenues (expenses)	(120,150)	(231,004)	1,165,427	10,402	824,675
Income (loss) before operating transfers	375,523	(383,260)	2,603,939	31,599	2,627,801
Transfers to, in		170,000	-	-	170,000
Transfers from, (out)	(11,069)	(11,069)	(19,971)	(53,296)	(95,405)
Net transfers	(11,069)	158,931	(19,971)	(53,296)	74,595
Change in net assets	364,454	(224,329)	2,583,968	(21,697)	2,702,396
Net assets beginning of year, (as restated in electric fund, see note 18)	4,758,626	10,828,152	30,922,299	69,032	46,578,109
Net assets end of year	\$ 5,123,080	10,603,823	33,506,267	47,335	49,280,505

See accompanying independent auditor's report.

CITY OF PELLA, IOWA

Schedule 7

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE-ENTERPRISE
 Year Ended June 30, 2005

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Total
Cash flows from operating activities:					
Cash received from customers	\$ 1,950,058	1,550,146	13,170,033	412,570	17,082,807
Cash payments to employees for services	(541,882)	(389,955)	(1,163,701)	(37,135)	(2,132,673)
Cash payments for goods and services	(625,603)	(634,648)	(9,662,985)	(360,385)	(11,283,621)
Replacement tax, transfers	-	-	(147,618)	-	(147,618)
Net cash provided by operating activities	782,573	525,543	2,195,729	15,050	3,518,895
Cash flows from non-capital financing activities:					
Miscellaneous receipts	68,089	150	11,389	9,121	88,749
Decrease in interfund receivable	-	-	57,337	-	57,337
Transfers in	-	170,000	-	-	170,000
Transfers out	(11,069)	(11,069)	(19,971)	(53,296)	(95,405)
Net cash provided (used) by non-capital financing activities	57,020	159,081	48,755	(44,175)	220,681
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(92,281)	(77,009)	(3,938,437)	-	(4,107,727)
Principal paid on long-term debt	(345,000)	(290,000)	(1,145,000)	-	(1,780,000)
Interest and other long-term debt costs	(221,051)	(243,663)	(398,992)	-	(863,706)
Discounts paid	-	-	(19,704)	-	(19,704)
Issuance costs paid	-	-	(36,385)	-	(36,385)
Proceeds from sale of capital asset/SO2 credits	2,041	-	1,279,575	-	1,281,616
Long-term debt proceeds	-	-	7,000,000	-	7,000,000
Net cash provided (used) by capital and related financing activities	(656,291)	(610,672)	2,741,057	-	1,474,094
Cash flows from investing activities:					
Proceeds (to) from investments	(155,749)	299,133	1,726,767	22,385	1,892,536
Investment income	35,860	17,490	279,864	1,222	334,436
Net cash provided (used) by investing activities	(119,889)	316,623	2,006,631	23,607	2,226,972
Net increase (decrease) in cash and cash equivalents	63,413	390,575	6,992,172	(5,518)	7,440,642
Cash and cash equivalents at beginning of year	1,258,727	253,780	2,857,346	24,796	4,394,649
Cash and cash equivalents at end of year	\$ 1,322,140	644,355	9,849,518	19,278	11,835,291

Schedule 7

CITY OF PELLA, IOWA
 COMBINING STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE-ENTERPRISE
 Year Ended June 30, 2005

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 495,673	(152,256)	1,438,512	21,197	1,803,126
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	302,417	719,312	840,171	-	1,861,900
Change in assets and liabilities:					
(Increase) in receivables	(16,167)	(20,771)	(136,314)	(6,651)	(179,903)
(Increase) in inventory	(5,340)	(10,169)	(132,395)	-	(147,904)
Increase (decrease) in accounts payable	637	(10,727)	126,172	369	116,451
Increase (decrease) in accrued expenses	2,410	(435)	9,544	85	11,604
Increase in compensated absences	2,943	589	3,881	50	7,463
Increase in deposits held	-	-	46,158	-	46,158
Total adjustments	286,900	677,799	757,217	(6,147)	1,715,769
Net cash provided by operating activities	\$ 782,573	525,543	2,195,729	15,050	3,518,895
Reconciliation of cash and cash equivalents at year end to specific assets included on the combining balance sheet:					
Current assets:					
Cash and investments	\$ 2,429,034	1,112,656	18,734,722	43,069	22,319,481
Less items not meeting definition of cash equivalent:					
Certificates of deposit	(1,087,835)	(460,238)	(8,732,216)	(23,381)	(10,303,670)
Iowa Public Agency Investment Trust	(19,059)	(8,063)	(152,988)	(410)	(180,520)
	(1,106,894)	(468,301)	(8,885,204)	(23,791)	(10,484,190)
Cash and cash equivalents at end of year	\$ 1,322,140	644,355	9,849,518	19,278	11,835,291

Schedule of non-cash investing, capital and financing activities.

The Enterprise funds have issuance costs related to financing that are recorded initially as assets and then prorated over the life of the loan. The following funds had issuance costs expensed in the current year from prior year's cash outlays: Water fund \$4,481, Sewer fund \$4,412, and Electric fund \$14,014.

The Enterprise funds also have discounts which are netted against debt in the financial statements. Each year a ratable portion of the discount is amortized. Discount costs recognized in the current year without corresponding cash outlays are: Water fund \$3,944, Sewer fund \$1,050, and Electric fund \$12,542.

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Property tax	\$ 2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	813,900	851,409	908,915	424,448
Other city tax	366,366	367,213	384,797	323,714
Licenses and permits	30,033	20,427	14,558	14,351
Use of money and property	151,017	120,419	99,101	170,331
Intergovernmental	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	-	-	-	2,588
Charges for service	353,694	251,492	310,852	307,930
Miscellaneous	183,838	516,042	289,876	752,519
Total	<u>\$ 7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:				
Operating:				
Public safety	\$ 1,338,999	1,148,456	1,098,202	1,088,566
Public works	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	601,903	262,752	86,560	237,300
General government	338,399	666,256	718,703	940,854
Debt service	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	668,144	3,205,314	367,781	894,029
Total	<u>\$ 7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report.

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

Honorable Mayor
Members of the City Council
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pella's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions were described as items in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 12, 2005

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

II-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation - We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response - We will work to maintain the best possible control with the personnel available.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in Federal Awards.

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- IV-B-05 Certified Budget - Expenditures for the year ended June 30, 2005, exceeded the budget in the public works, culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We treated the non-major special revenue funds listed in Schedule 2 as fiduciary funds and, therefore, they were not included in the City's budget. This is why the public works and culture and recreation areas exceeded the budget. In the future they will be budgeted. The total budgeted expenditures were \$31,671,483 and total actual expenditures were \$28,875,573. While we realize we exceeded certain budgeted categories this year, we were under in total expenditures. The budget will be amended in the future.

Conclusion - Response accepted.

- IV-C-05 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-05 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-05 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2005 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Stockholder of Eagle Electric, Inc.	Electrical work	\$870
Mark De Jong, Council Member Owner of De Jong Greenhouses	Planting materials	\$726

There were no related payables at June 30, 2005.

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED June 30, 2005

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-05 Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

IV-I-05 Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.

IV-J-05 Financial Condition - The Special Revenue Fund, Tax Increment Financing, Bos Landen Account had a deficit balance at June 30, 2005, of \$86,141.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit is due to an interfund payable to the Electric Utility of \$87,054. We anticipate this payable will be paid back with future TIF revenues.

Conclusion - Response accepted.

IV-K-05 Financial Condition - The Special Revenue Fund, Tax Increment Financing, Pella Business Corridor account had a deficit balance at June 30, 2005, of \$465,085.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit is due to an interfund payable to the Road Use Fund of \$469,481. We anticipate this payable will be paid back with future TIF revenues.

Conclusion - Response accepted.